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C O N F I D E N T I A L SECTION 01 OF 04 ALMATY 000756

SIPDIS

FOR SCA A/S BOUCHER FROM THE AMBASSADOR  
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TAGS: [PREL](#) [PGOV](#) [EINV](#) [KDEM](#) [PHUM](#) [PARM](#) [KPAO](#) [KZ](#) [POLITICAL](#)

SUBJECT: KAZAKHSTAN: WHITHER IN 2006

Classified By: Ambassador John M. Ordway for reasons 1.4 (b) (d)

1. (C) Summary: The U.S.-Kazakhstan relationship is broad and deep, built on a number of significant points of congruence. The GOK is a potential ally and partner on a whole range of issues that are critically important to the U.S., including diversifying Eurasian gas supplies and routes to world markets; creating a prosperous and increasingly integrated region that includes Afghanistan; and countering religious extremism and terrorism both regionally and beyond. President Nazarbayev dominates Kazakhstan's decision-making process, and our sustained high-level engagement with him over the past four months has dramatically improved a relationship that was already quite good. Nazarbayev's governing style, however, is based on careful balancing and compromises with powerful, entrenched interests -- political as well as economic and personal. An extensive list of issues that needs our attention and engagement comprises the bulk of this message. How we manage those issues, and how we can simultaneously pursue them effectively, will be absolutely key to our success (or lack thereof.)

2. (C) Summary Cot'd: The Kazakhstani bureaucracy is fragmented, non-communicative (both internally and externally,) powerful, and responds with alacrity only to a direct command from the President. The 15-year history of U.S.-Kazakhstani relations is littered with plans and projects that were the product of shared strategies, and then died as they failed to secure support and engagement at lower levels. One possible way to build bureaucratic discipline and responsiveness on the Kazakhstani side would be to form some sort of joint body that would be responsible for monitoring progress across the board in the bilateral relationship -- and whose annual or semi-annual sessions would be an unavoidable galvanizing agent to the bureaucracy to produce progress, or face the President's wrath. The appointment of reform-minded, pro-American Karim Masimov as deputy Prime Minister puts him in an excellent position to co-chair such a group on the Kazakhstani side. End Summary.

3. (C) We are the demandeur for most of the bilateral agenda. Even on items that are in our mutual interest, the Kazakhstanis perceive us as the driving force. Two items, however, are ones that they are strongly pushing for, and we have yet to tip our hand completely. The first is an Oval Office visit for Nazarbayev, an item that comes up in every discussion the Ambassador has with senior officials. The GOK and Nazarbayev may see this primarily as recognition of their importance, and gratification of the President's considerable ego. However, it also will provide Kazakhstan with a strong geo-strategic counterweight as it continues to balance relationships with its two mega-neighbors: Russia and China. From our point of view, such a visit offers an opportunity to lock in Kazakhstani positions through public and private understandings and statements. It also refreshes, through personal contact, a presidential relationship that is an essential nutrient of our longer-term relationship. Additionally, it creates the most favorable possible circumstances for us to get Nazarbayev's support for our strategy of opening a new corridor of opportunity to Afghanistan and beyond in South Asia. Finally, it could provide essential cover against Russian opposition to orienting Kazakhstani and Central Asian gas to world markets through new transportation links.

4. (C) The other major item on the Kazakhstani side of the agenda is its campaign to become chairman-in-office of the OSCE in 2009 -- a project that Nazarbayev has increasingly staked his own personal prestige on. Our current approach is to encourage the Kazakhstanis quietly and informally to re-focus their aspirations on 2011, giving them more time to develop the democratic reform credentials we want to see in any OSCE CIO. If Nazarbayev visits Washington in the next few months, we will have to either validate or revise this approach to ensure that it does not derail our other priorities.

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The Agenda  
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15. (C) SECURITY CLUSTER  
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--Counter-terrorism cooperation.

Status: Excellent operational cooperation that is producing results.

Next steps: Continued engagement at the operational level; occasional high-level mention of this as a success item.

--PSI

Status: The GOK has proposed operationalizing the agreement in principle that Under Secretary Joseph secured from President Nazarbayev.

Next steps: Respond to the GOK request for further discussions on implementing the agreement. Develop an effective modus operandi to exchange intelligence information and develop real-time communication and coordination.

--Caspian Security

Status: Nazarbayev has raised repeatedly the need for training, equipment and other assistance (short of a U.S. military base) to protect Kazakhstan's sector of the Caspian, including possible arrangements for mutual military assistance.

Next steps: The USG should provide a carefully considered policy response that includes all aspects of our interest (counter-proliferation, counter-terrorism, counter-narcotics, security of hydrocarbon resources and transportation links,) and then coordinate a comprehensive U.S. assistance proposal and engagement that includes existing programs and authorities as well as possible new elements.

--Iraq

Status: Kazakhstan provides a 27-member EOD unit that is operating very effectively in Iraq. Nazarbayev has committed to keeping the unit there; the MOD wants to gradually transition from operations to training Iraqi units.

Next steps: Continue the excellent support from DOD and CENTCOM.

--Military reform

Status: The MOD is transforming the military into a more mobile and agile force that can be used either against terrorism/extremism threats in the south, or to respond to threats to the oil and gas patch in the Caspian. Key elements include a professional NCO corps, better transportation assets, and increased cooperation and integration with NATO and the U.S.

Next steps: Continue, and if possible enhance our FMF and IMET programs. Continue the very effective DOD, JCS, CENTCOM, and EUCOM high-level visits and contacts.

--Non-proliferation

Status: Kazakhstan has been a star in denuclearization and reducing the proliferation threat. Our biggest problems have been entrenched and non-cooperative bureaucracies, low-level resistance to new programs, and numerous operational problems. These include obtaining full exemptions for Value-Added Tax and customs duties for assistance provided. There is also one unresolved CWC compliance issue.

Next steps: Continued engagement, and possible formation of a high-level bilateral implementation review group at the ministerial level or higher.

16. (C) ECONOMIC CLUSTER

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--U.S. investment

Status: The U.S. is Kazakhstan's single largest foreign investor. American private-sector investments are concentrated largely in the oil and gas sector. Corruption, non-transparent regulation, discriminatory practices, weak or non-existent judicial protection, and insider dealings all mar the investment climate. Nazarbayev seeks more U.S. involvement in the SME sector, and encouraged Secretary Johanns, during the latter's recent visit here, to send U.S. agri-business to Kazakhstan.

Next steps: Continue high-level commercial advocacy where warranted (including current efforts for Boeing and Conoco-Philips.) Provide advice and support for specific problems and issues. Move to implement our USAID-GOK jointly-funded SME support program. Consider a USDA-led agricultural trade mission.

--WTO accession

Status: Kazakhstan is vigorously negotiating bilaterally and multilaterally. There is strong, visible political support from Nazarbayev. Nevertheless, in a number of significant areas, we still have a lot of work to do on a bilateral basis. Kazakhstan cannot get PNTR as long as it remains subject to Jackson-Vanik.

Next steps: USTR to continue its intense bilateral engagement with the GOK's negotiator. State and USAID to consider how to utilize visitor programs and technical assistance to complement the negotiating process and identify any post-accession assistance requirements. Consider a joint statement on WTO accession if and when Nazarbayev visits Washington. Work to graduate Kazakhstan from Jackson-Vanik.

--Gas

Status: Due to its Soviet-era transportation infrastructure, Kazakhstan both imports and exports gas. All exports currently go to or through Russia with netbacks dramatically lower than world market prices. Kazakhstan has sought to export gas to Georgia and Ukraine, but has to deal through Gazprom. Kazakhstan probably has significant gas resources that could be exploited in the future. Kazakhstan and China are in the pre-feasibility stage of a gas pipeline to China, which might only add a second monopoly rather than market diversity.

Next steps: Agree on a U.S. TDA feasibility study of the trans-Caspian gas pipeline from Kazakhstan to Azerbaijan that would provide a non-Russian export route to Europe for both Kazakhstani and potentially Turkmen gas, either replacing or complementing any pipeline to China.

--Bilateral Assistance Agreement

Status: Our original bilateral agreement that provides inter alia for tax exemption for U.S. assistance projects was never ratified. Unratified agreements no longer supercede local law, including tax and customs laws. We face increasing problems in securing tax exemptions.

Next steps: Complete negotiations for a new bilateral agreement that can be ratified, along with our agreement to co-finance certain USAID economic development projects, as that part of our assistance winds down.

--TIFA

Status: The Central Asian TIFA includes all five Central Asian states. An initial ministerial meeting was held, along with a follow-up meeting.

Next steps: Move quickly to identify issues that will engage the regional states. Work bilaterally with Kazakhstan to develop its capacity to provide leadership to the process. Look for ways to expand activities and possibly membership to Afghanistan.

#### 17. (C) POLITICAL/DEMOCRATIZATION CLUSTER

--OSCE Chairman-in-Office

Status: Kazakhstan is a declared candidate for 2009. Two countries (Greece and Lithuania) are competing for 2010. Kazakhstan falls short of the standard that we and like-minded countries want to see in a CIO. Kazakhstan may also have problems leading the organization due to a shortage of trained and capable diplomats. Our current approach is to encourage the Kazakhstanis to postpone their candidacy until 2011, allowing them more time to implement democratic reforms. In that context, we would offer to support them UNLESS they fail to implement their reform package, and would also develop an international consortium to provide education and training to their diplomats.

Next steps: Validate or change the current approach, and then seek consensus on it with like-minded OSCE countries, especially the EU.

--Democratic reforms

Status: The last two Kazakhstani elections have shown improvements, but were flawed and did not meet international standards. Legal requirements and harassment limit the opportunities for organized political expression. Nazarbayev has outlined a positive vision for political and democratic reform, but there has been very little implementation. A new commission chaired by the President offers new opportunities to move the agenda forward. Among the areas Nazarbayev has outlined are (a) increasing the size of parliament and electing more members by party list; (b) expanding the powers of the parliament; and (c) reforming local government structures to make them more responsive to local communities.

Kazakhstan has a serious corruption problem.

Next steps: Continue to use high-level dialogue to stress the importance of democratic reforms to the overall relationship. Encourage development of a Kazakhstani reform agenda that we can support. Reverse the decline in U.S. exchange programs. Encourage the GOK to send as many of its government-financed overseas students as possible to the U.S. Support any serious anti-corruption efforts that develop. Support judicial reform if and when it develops.

#### --Media

Current status: While there is scope for debate and criticism in the press, clearly oppositionist newspapers have difficulties operating and have on occasion been shut down permanently. The Kazakhstani broadcast media are not objective, and provide no coverage of dissenting or alternative political views. Russian television and radio dominate the airwaves, coloring local attitudes toward the U.S. Professionalism and the skill-level of local journalists are very low.

Next steps: Consider establishing a journalism school based on Western standards to train responsible, professional journalists. Look for ways to break through Russia's near-monopoly on electronic information, particularly television news and public affairs programming. A competitive broadcast media environment would offer greater access to diverse views in Kazakhstan, and perhaps all of Russian-speaking Eurasia.

#### --Religious tolerance and extremism

Current status: Kazakhstan is a very tolerant society, and the GOK has encouraged inter-ethnic and inter-confessional harmony. The growing regional terrorist threat, an increasingly active Hizb-ut-Tahrir, and a small up-tick in radical imams and mosques, have greatly troubled the government. Regressive legislation in 2005 has not been implemented against legitimate groups. However, there are strong indications that the GOK will seek authority to crack down on non-conforming Islamic communities, with "balancing" moves against other, "outside" religions as well. Nazarbayev is looking for ways to demonstrate that countries with Muslim populations can be prosperous and secular, avoiding radicalism and fundamentalism.

Next steps: Continue to urge respect for all legitimate religious groups, whether registered or not. Consider joint seminars or other ways to examine how the GOK can prevent the development of radical religious groups that foster terrorism, without violating basic principles of religious freedom. Explore ways that we can, behind the scenes, encourage Kazakhstan to work with other moderate, secular states to develop an alternative model of development for Muslim countries.

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